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SUBJECT: AUTOSTRADE SPA: LOOKING TO EXTEND SUCCESS ABROAD

1. SUMMARY: Driven by a market imperative for private capital to finance massive infrastructure projects, Italy's successful Autostrade SpA has emerged as a world leader in devising innovative electronic toll collection systems that will soon be exported abroad. Autostrade SpA, the controlling interest in the larger Gruppo Autostrade, is one of Italy's brightest corporate success stories, setting an international trend for the private management of traditionally public works projects. To date, its foreign activities include projects in the U.S. and U.K., with a third significant project coming on-line in Austria in January 2004. Autostrade's success has placed it at the forefront of the EU "Transport Corridor" initiative, which seeks to bind existing EU member states to the ten 2004 accession states as well as to neighbors as far east as Ukraine. END SUMMARY.

AUTOSTRADE BACKGROUND

2. Econoff met on October 30 with Dr. Ruggero Borgia, Autostrade's director of infrastructure and sector development, and Ing. Riccardo Starace, head of international development. Borgia gave a brief background of the company, which was founded in the 1950s as a state-run operation. Gradual privatization followed, and Autostrade ultimately became fully private in the mid-1990s. Autostrade SpA is the controlling interest in the "Gruppo Autostrade", a consortium of Italian and foreign companies whose services range from highway service and maintenance to toll collection and roadside assistance. Autostrade's annual report lists a 2002 net income of Euro 504 million for the Autostrade Group, an increase from Euro 389 million in 2001 and 339 million in 2000. It boasts a workforce of over 9000 employees, while maintaining a labor cost of only 19.4 percent of overall operating costs, down steadily from 26.6 percent in 1997.

3. The meeting at Autostrade SpA provided a look inside one of Italy's best-known corporate success stories. The Autostrade Group provides services and maintenance for 3408 km of highways inside Italy as well as for several highway and electronic toll-collection projects in the U.S., U.K. and Austria. The company has seen a steady rise in profits and performance in the last few years, and has gained a reputation as one of Italy's best performing corporate entities. According to its executives, Autostrade is also listed by the Dow Jones Index of Sustainability as one of only three companies in Italy that has managed to balance a profitable business strategy with a record of environmental protection. Autostrade now looks to build on these successful initial projects abroad by positioning itself for more foreign and EU contracts, beyond the proposed EU transport "Corridor 5" linking Lisbon to Kiev via northern Italy.

PROJECT FINANCE DEMANDS TOLL REVENUE

4. According to Borgia and Starace, more efficient, fair and creative methods of highway revenue collection are the cornerstone upon which financing for large-scale infrastructure development depends, whether in the EU or the Middle East and beyond. The massive investment required for ten proposed EU "transport corridors" linking the current EU to the accession countries to the east and beyond has pushed corporations such as Autostrade to devise more efficient and creative ways of toll collection. Although sources for the several billion Euro required to build Corridor 5 have yet to be determined, Autostrade has taken the lead in creating a kilometric model for successful revenue collection, in anticipation of projects beyond Corridor 5. Borgia and Starace said that a system that charges by the distance traveled without forcing motorists to stop or even be channeled through gates "maximizes revenue" and is additionally "the most fair."

U.S. AND U.K. PROJECTS

5. Autostrade's initial foray into international investment took place in Northern Virginia. In 1995, Autostrade completed work on the Dulles Greenway (VA 267), linking Northern Virginia to Dulles Airport. According to its

website, VA 267 was the first private toll road built in Virginia since 1816. Autostrade retains responsibility for operation and maintenance of the road, which competes with

Leesburg Pike (route 7) for traffic to and from Dulles airport. Some 65,000 vehicles per day use the road for an average \$2 fee (depending on time of day, size of vehicle, e.g.), collected via an electronic "Smart Tag" system that leaves no traffic lights or bottlenecks on any part of the road. (Note: Some Northern Virginia-based readers may have already observed that even technological innovation has its limits during rush hour. End note.) Revenue is shared with the State of Virginia in a private-public partnership. Autostrade's operational concession for the Dulles project runs through the year 2035.

16. In the U.K., Autostrade is in the final weeks of completing a new beltway around Birmingham, using similar electronic toll collection and revenue sharing with the public sector. Borgia and Starace said that environmental concerns initially delayed the project, but that the same "green work" record that caused Autostrade to be listed by the Dow Jones Sustainability Index also inspired greater confidence among Birmingham locals.

POSSIBLE INTEREST IN TEXAS

17. On September 30, Autostrade sent two representatives, Director of Major Projects Gennarino Tozzi and Director of Territorial Development Franco Rapino to a seminar hosted by the Embassy for representatives of the Texas Department of Transportation. The Texas DoT representatives were on a European tour promoting the \$150 billion Trans-Texas Corridor Program, which provides for the construction of some 4000 miles of 1200 foot-wide corridors to accommodate high-speed passenger and freight railways, toll roads, special truck lanes and gas and water pipelines. The corridors would run parallel to existing major interstate highways between Dallas, Houston, San Antonio and Corpus Christi.

THE "AUSTRIAN MODEL"

18. In January 2004, Autostrade's pet project in Austria will come on line. Through control of revenue collection on Austria's entire network of highways, the innovative system of toll collection for heavy vehicles will be the first of its kind in the world, according to Borgia and Starace. In it, some 800 gates are built over the entire highway network, each equipped with electronic "Euroypass" readers as well as an antenna. Vehicles, which do not even have to slow down, and indeed may not even be aware they have just been charged, pass through gates that read point of entry and point of exit from the highway. In addition, the antenna picks up a second piece of information, the shape and size of the vehicle. This last piece of information, explained the executives, prevents transferral of an electronic payment box from one vehicle to another - which was, according to them, the final obstacle to establishing an effective and fair system. The two pieces of information are sent to a central communications center for reconciliation of the exact payment amount.

THE ITALIAN EXAMPLE

19. Back in Italy, the still-growing Telepass system run by Autostrade is used by up to 60 percent of motorists in the vicinity of major cities such as Milan, according to Borgia. The two pieces of information are sent instantly via fiber-optic transmission to Autostrade's communications center in Florence, and the information is "blinded", so that it cannot be corrupted for use to track movements of people and goods. This communications center also serves a "clearinghouse" function - a motorist travelling from Turin to Venice drives on highways administered by five different companies. Autostrade's computers instantly divide the toll proportionately between them, while the motorist is only charged one lump sum.

COMMENT:

10. Electronic toll collecting is nothing new, and neither is the growing phenomenon of the privatization of public works projects. What makes Autostrade unique is the extent to which it has managed to streamline efficiency and revenue collection, creating a successful alchemy for the capitalization of more ambitious infrastructure development projects on the horizon. Autostrade's "Austrian Model" bears

further scrutiny not only because it represents a technological leap forward, but because Autostrade's executives believe that their continued success - and that of ambitious projects such as the EU Corridors Project - rests

upon this capital engine. Although Autostrade has no involvement in Iraq reconstruction, Borgia and Starace are receptive to the idea of participation. They feel strongly that their Austrian model could ultimately provide the means to finance international infrastructure projects in Iraq and elsewhere. END COMMENT.
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